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THE INTERNATIONAL HELIUM COMPANY LIMITED

11 King Street West • Suite 907 • Toronto 1, Ontario, Canada • 362-1618

March 12, 1968

Dear Shareholder:

I wish to present to you a report on behalf of the board covering the activities of the Company over the last six months. Our delay in reporting to you since our last report has been caused mainly by the slow development of our negotiations in Guatemala and Mexico. However, although these negotiations are still not completed, we feel that we should not delay any further in reporting on the position of the Company as it stands today.

MEXICO

I remind you that the Company holds a 34% interest in Azufres Nacionales Mexicanos, S.A. de C.V. ("Anamex"), the remaining 66% being held by Fomento Minera, a Mexican Government Agency. The Company formed Anamex together with Fomento Minera to operate sulphur properties on the Texistepec dome in Mexico.

For some time now, the Company, acting as agent for Anamex, has had important discussions with Anamex's immediate neighbour in Mexico, CEDI, an equal partnership of Fomento Minera, a group of Mexican nationals and Texas Gulf Sulphur Company. The purpose of these discussions has been to arrive at a unitization of the neighbouring properties of the two parties with a view to exploiting the Texistepec dome in the best possible manner. Unitization would allow both properties to be brought into production as a single unit and would obviate the necessity of Anamex building a separate plant to process its reserves.

After several months of negotiations, we can now report that it has not been possible to arrive at a satisfactory basis for unitizing the two properties. We have to decide on the next step. We are therefore going to sit down with our partner, the Mexican Government, and our adviser, Mr. V. V. Jacomini, to consider within the framework of the Mexican Government's requirements as to size of plant and percentage of exportable reserves, the economic and financial aspects of this new situation. Mr. Jacomini is an expert in the field of sulphur and has built several sulphur production plants as a partner in Hudson Engineering of Houston, Texas. It is our intention to recommend to our partners that a feasibility study be prepared by an independent engineering expert as to how best to exploit Anamex's sulphur property.

Although posted world sulphur prices are still strong and the market consequently favourable, it should be borne in mind that it will take at least two years before our sulphur can be marketed. In the meantime, Anamex is continuing its exploration drilling program. We can report that the 20 holes drilled in 1967 have not only confirmed but, in fact, increased our known proven reserves so that they now stand at some 3,000,000 tons of sulphur in place. In all a total program of 60 holes is scheduled,

which will extend over the next 12 months. DeGolyer and McNaughton, independent petroleum consultants engaged by the Company, have estimated that the average recovery factor for the deposit is 70% of the in-place sulphur. At the present rate of expenditure, this exploration program is costing approximately \$40,000 per month, all of which is being advanced in the form of loans to Anamex by the Company. This figure however, includes all costs of administration of both our office in Mexico City and at the mine itself.

An export licence from the Mexican Government has now been received permitting the export of sulphur in the stock pile owned by the Company in Mexico, which, as reported originally amounted to approximately 10,000 tons, but which is now estimated to be approximately 9,000 tons. Mr. G. G. Lozano, a director and general manager of Anamex is presently negotiating for the sale of the sulphur in this stock pile on behalf of the Company. Mr. Lozano advises that he expects that the sulphur can be sold for approximately \$(U.S.) 50 per ton. From this amount there will be deducted taxes, royalties and handling costs. The proceeds will be advanced to Anamex to offset the exploration work of Anamex and should be sufficient to finance a considerable portion of its exploration program as presently scheduled without further direct contribution from the Company.

GUATEMALA

I direct your attention to the Company's investment in Guatemala which consists of a 50% interest in Azufres de Guatemala Ltda. ("Azufres de Guatemala"). Developments in Guatemala have not been without set backs. It would appear that the Motosi equipment for which Azufres de Guatemala paid approximately \$(U.S.)400,000 and which was installed near the Lake Ixpaco deposit will have to be replaced by conventional equipment. As you may recall this amount was advanced to Azufres de Guatemala by the Company as a loan. This development has brought about a delay in our production plans which are currently under review. There are several reasons why the Motosi equipment should be replaced. It has been discovered that instead of producing sulphur in concentrate form of 95% grade, it can produce only 90% grade. The high acid content of the Lake Ixpaco mud and the absence of acid proofing result in excessive corrosion to the steel in the plant. In addition, the capacity of the plant has turned out to be considerably below the rate represented by the inventor. Much of the facilities however already established at Lake Ixpaco can and will be used in connection with the conventional flotation plant, such as the dredge used for extracting the lake mud, power plant, living quarters, workshop, buildings and warehouses.

Also in the period since our last report, a renewed survey has been made of the ore reserves at Lake Ixpaco. This survey indicates that ore reserves are less than had been originally estimated. It has been stated initially that the ore reserves at Lake Ixpaco were approximately 2,000,000 short tons of sulphur.

Resources Engineering of Canada Limited, who were at the time, but who are no longer advising the Company, had stated in their report that this was the correct figure. It now appears that the estimates were based on an erroneous interpretation of the water content of the lake bottom sediment. The results of the new survey indicate a reduction of tonnage potential of approximately 50% of the original estimate of 2,000,000 tons.

Pending metallurgical tests, the Company is unable to forecast the recovery rate for the estimated reserves. Since last reporting to you Azufres de Guatemala has embarked on an exploration program in the remainder of its concession. This program is now in progress.

During the period from June to November, 1967, Azufres de Guatemala has conducted extensive investigations and tests at the Southwest Research Institute in San Antonio, Texas of the sulphur bearing lake mud on its property. These tests were conducted by Mr. J. Dale, head of the sulphur division of that Institute and by Mr. V. V. Jacomini.

At the same time, extensive tests were undertaken at Lakefield Research of Canada Ltd., with a view of establishing the most efficient grade which could be obtained from the flotation of the lake mud. As a result of these tests it was established that the refining process as originally planned would have serious disadvantages and that a solvent extraction method would most likely be a more workable way by which the sulphur would be separated from the gangue.

At the same time Azufres de Guatemala is investigating the possibility of selling a dried concentrate containing some 90% sulphur. However, the market for this form of sulphur is limited and consequently it is not possible at the present moment to report on the method which the Azufres de Guatemala will follow to exploit its reserves at Lake Ixpaco.

Our partners in Guatemala, Messrs. Brady and Ghitti, had made an arrangement with the Ogden Corporation in New York whereby they would sell their interest in Guatemala to that Company provided certain conditions were met. Partly as a result of the developments described above, the arrangement was terminated. However, the Ogden Corporation is still negotiating with our partners and will maintain a liaison with us on the technical and management level.

We are discussing the consequences of the latest developments with our partners in Guatemala as well as with the authorities of that country. The co-operation with the Government of Guatemala has been excellent and the Government is fully conscious of the importance of our efforts for the economy of the country.

Progress in Guatemala has been hampered by the events described and will further be delayed by the necessary replacement of the Motosi equipment by conventional machinery. Depending on the method chosen and the markets available, it will be at least 18 months before we reach the stage where a final product can be marketed.

OPERATIONS IN CANADA — HELIUM

Industrial Cryogenics Incorporated, a company specialized in the field, has designed a helium extraction plant for the development of the Company's helium properties in Saskatchewan.

In view of our activities in both Guatemala and Mexico, priority has been given to the properties there over our helium project. In the period now under review, we

have negotiated rights of ways for a pipeline and have secured water supplies for our future extraction plant.

It is not possible at this stage to set a date at which construction of facilities will commence. These plans will be influenced not only by the developments in Guatemala and Mexico but also by the market for helium which, at the present time, is not as favourable as it was some time ago. Indications are, however, that this decline in the market is only of a temporary nature and developments in this field are being watched carefully.

MANAGEMENT

Since our last report, a number of changes have taken place in the management of the Company.

Mr. J. A. Gairdner has resigned as Chairman and Mr. Louis W. Erlich is now Chairman.

I was posted to the position of President in September, 1967.

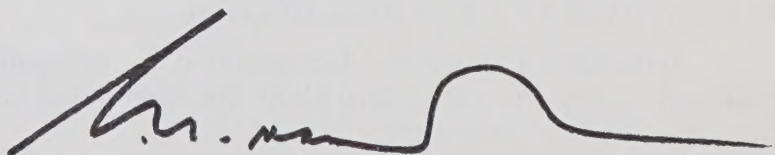
FINANCES

The Company has been provided with a loan of up to \$3,000,000 from Brantor Limited and Gairloch Investments Limited, companies in which certain of your directors and shareholders have a substantial interest. The loan is being used for the Company's operations in Guatemala and Mexico in order to provide working capital and additional plant and equipment for the Company's sulphur properties in these countries.

FILING STATEMENT

The Company has submitted a filing statement to the Toronto Stock Exchange covering the matters reported on in this letter and other matters of less importance. The Exchange has requested complete engineering data on the Company's sulphur interests and engineer's recommendations for future plans before accepting the filing statement. The Company is in the process now of obtaining this material for the Exchange.

On Behalf of the Board,

A handwritten signature in dark ink, appearing to read 'C. H. van Brink', with a long horizontal flourish extending to the right.

C. H. van Brink,
President

File

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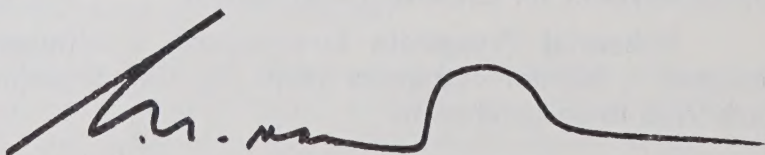
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President